



THE SECRETARY OF THE TREASURY

WASHINGTON

March 20, 1992

The Honorable Alan Greenspan
Chairman, Board of Governors
Federal Reserve System
20th Street and Constitution Avenue, N.W.
Washington, DC 20551

Dear Alan:

We have considered the proposals concerning the warehousing facility contained in the January 22, 1992 memorandum to Treasury staff, taking into account our understanding that the FOMC decided at its February 4-5 meeting to renew the facility at a level of \$5 billion.

The ESF's dollar balances have fluctuated widely in recent years, largely as a result of intervention operations but also in reflection of bridge loans and transactions in Special Drawing Rights. The present level is sufficient to meet the ESF's immediate operational needs. But there is no guarantee that a \$5 billion warehousing facility would be sufficient in the future, and Treasury would intend to request an increase if the need arises. Accordingly, I am prepared to accept the proposals to adjust the terms and conditions of warehousing transactions, and to undertake advance repurchase of the remaining \$2 billion equivalent of warehoused foreign currency provided that we could expect that the FOMC would consider positively such a request, based on a favorable recommendation from the Chairman.

I understand that you could not guarantee FOMC approval but would appreciate your confirmation that our expectation outlined above is reasonable.

Sincerely,

A handwritten signature in cursive script, reading "Nick F. Brady".

Nicholas F. Brady



BOARD OF GOVERNORS
OF THE
FEDERAL RESERVE SYSTEM
WASHINGTON, D. C. 20551

ALAN GREENSPAN
CHAIRMAN

March 24, 1992

The Honorable Nicholas F. Brady
Secretary of the Treasury
1500 Pennsylvania Avenue, NW
Washington, DC 20220

Dear Nick:

Thank you for your letter of March 20 concerning the Federal Reserve's \$5 billion warehousing facility in favor of the Exchange Stabilization Fund and the U.S. Treasury. I welcome your intention to undertake an advance repurchase of the remaining \$2 billion equivalent of foreign currency currently outstanding on the facility. I also welcome your acceptance of the proposals to adjust the terms and conditions of such transactions in the future.

I recognize that the Treasury may feel the need to increase the size of the warehousing facility in the future, as has happened in the past, beyond its present \$5 billion. I would strongly support an increase under a wide variety of possible circumstances. I am confident that the FOMC would give full, careful and expeditious consideration to any reasonable proposal. Needless to say, as you note, I cannot guarantee in advance the Committee's approval of any proposal.

Sincerely,

A handwritten signature, likely of Alan Greenspan, is written below the word "Sincerely,". The signature is in dark ink and appears to be a stylized, cursive representation of the name.